MBHASHE LOCAL MUNICIPALITY (EC 121)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

General Information

Nature of business and principal activities	The Municipality is responsible for the following activities: - collection of rates in respect of property - refuse and solid waste removal - maintenance of access roads, storm water facilities and streetlights within its jurisdiction - traffic control, issue of learners licences and renewal of drivers licences

The following is the list of Councillors as at 30 June 2014

Mayoral committee

Mayor	Ms N.O Mfecane
Speaker	Mr M.M Mcotsho
Members of the Executive Committee	Mr M Peter
	Miss X.O Willie
	Mr M Mbomvu
	Mr F Khekhetshe
	Mr V.S.K Mbewu
	Ms N Xhungu
	Mr M Tetyana
	Mr M Noyila
Chief WHIP	Mr S Hoyo
Councillors	Mr P Rulumeni
	Mrs N.N Nkqwiliso
	Miss N Tswila
	Miss B Tetyana
	Mr M Potelwa
	Mr M.T Nodliwa
	Mr X.A Zimba
	Mr M Khwakhwi
	Mr B Jamda
	Mr S Mpongwana
	Ms N Sigcau
	Mr T Tshika
	Miss Z Khosi
	Ms C.N Buyeye
	Mr M Tyali
	Mr P Faniso
	Mr M.J Savu
	Miss N Kopolo
	Mr S Ndinisa
	Mr M Mapungu
	Ms V Matiwane
	Mrs N Magatya
	Miss N Mtsi
	Mr B Maqelana
	Mr L Gogoba
	Mr M Majiya
	Miss N Stefano
	Mr B Sigcawu
	Ms N Mlungu
	Ms N Ncetani
	Ms N.M Mlandu

General Information

	Ms X.P Baleni Ms N Janda Ms N.B Benya Mr V.A Somana Miss X.M Tyodana Mr M.S Jafta Ms N.V Lumkwana Ms N Nonjaca Mr A Bambiso Mr P Methu Miss F Mbiko Mr N Ndlodaka Mr K.D Msindwana Mr L.A Xana Miss Y.G Mhlathi Mr M Takani Mr S Wulana Miss T Mafanya Miss N Mangaliso
Grading of local authority	Grading 3
Chief Financial Officer	Mr S Ndakisa
Accounting Officer	Mr M.F. Nofemela
Registered office	454 Steatfield Road Dutywa 5000
Postal address	P.O. Box 25 Dutywa 5000
Bankers	First National Bank (62231175953)
Auditors	Auditor-General of South Africa
Traditional Leaders	Mr Masiko Mr Salakuphathwa Mrs A N Sigcawu Mr F F Ndim Mr S Nyendani Mr M Sigcawu Mr B S Sigidi Mr M Titshala Mr V S D Qotongo Mr N Ngubechanti Mr S X Ndevu Mr N W Zenani

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Abbreviations

AFS	Annual Financial Statements
EPWP	Extended Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MPAC	Municipal Public Accounts Committee
MSIG	Municipal Systems Improvement Grant
SALGA	South African Local Government Association
SARS	South African Revenue Standards
VAT	Value Added Tax

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviours are applied and managed within predetermined procedures and constraints. Salaries, allowances and benefits to public office bearers and councillors of the municipality were within the upper limits of the framework envisaged in Section 219 of the Constitution.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements set out on pages 5 to 55, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed on its behalf by:

Mr M.F. Nofemela
Acting Municipal Manager

Place of signature

29 August 2014

MBHASHE LOCAL MUNICIPALITY (EC 121)

Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Notes	2014	2013 Restated*
Assets			
Current Assets			
Receivables from non-exchange transactions	35	705 841	705 152
VAT receivable	3	2 634 033	4 433 318
Consumer debtors	4	521 565	599 280
Cash and cash equivalents	5	113 514 043	68 557 698
		117 375 482	**74 295 448**
Non-Current Assets			
Investment property	6	53 526 558	54 704 471
Property, plant and equipment	7	237 974 103	230 573 475
Intangible assets	8	453 027	453 952
Heritage assets	33	9	9
		291 953 697	**285 731 907**
Non-current assets held for sale	34	2 114 500	-
Non-Current Assets		291 953 697	285 731 907
Current Assets		117 375 482	74 295 448
Non-current assets held for sale (and) (assets of disposal groups)		2 114 500	-
Total Assets		**411 443 679**	**360 027 355**
Liabilities			
Current Liabilities			
Operating lease liability		4 157	21
Payables from exchange transactions	9	10 038 166	9 360 003
Unspent conditional grants and receipts	10	20 053 536	13 014 215
Provisions	11	291 694	269 643
Bank overdraft	5	2 141 510	-
		32 529 063	**22 643 882**
Non-Current Liabilities			
Non current operating lease liability		14 108	18 265
Employee benefit obligation	12	1 841 507	1 630 218
Provisions	11	2 402 846	2 262 022
		4 258 461	**3 910 505**
Non-Current Liabilities		4 258 461	3 910 505
Current Liabilities		32 529 063	22 643 882
Liabilities of disposal groups		-	-
Total Liabilities		**36 787 524**	**26 554 387**
Assets		411 443 679	360 027 355
Liabilities		(36 787 524)	(26 554 387)
Net Assets		**374 656 155**	**333 472 968**
Net Assets			
Accumulated surplus		374 656 155	333 472 968

* See Note 37

Statement of Financial Performance

Figures in Rand	Notes	2014	2013 Restated*
Revenue			
Fines		626 813	619 629
Government grants & subsidies	14	183 369 750	165 886 695
Interest received		6 022 423	3 722 835
Other income	17	620 848	298 554
Licence and permits		951 983	973 431
Property rates	15	4 365 455	4 710 025
Rental of facilities and equipment		761 979	537 274
Service charges	16	764 933	916 485
Total revenue		**197 484 184**	**177 664 928**
Expenditure			
Personnel	19	(38 122 476)	(37 032 954)
Remuneration of councillors	20	(18 866 588)	(17 907 022)
Depreciation and amortisation		(33 618 096)	(30 326 761)
Finance costs	21	(166 143)	(599 625)
Debt impairment	22	(963 238)	(2 933 372)
Administrative and other expenditure	23	(64 762 923)	(51 421 589)
Total expenditure		**(156 499 464)**	**(140 221 323)**
		-	-
Total revenue		197 484 184	177 664 928
Total expenditure		(156 499 464)	(140 221 323)
Operating surplus		**40 984 720**	**37 443 605**
Gain/(loss) on disposal of assets and liabilities		198 452	(1 141 546)
Surplus before taxation		41 183 172	36 302 059
Taxation		-	-
Surplus for the year		**41 183 172**	**36 302 059**

* See Note 37

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	296 765 208	296 765 208
Correction of errors - refer to note 37.2	405 701	405 701
Balance at 01 July 2012 as restated*	**297 170 909**	**297 170 909**
Changes in net assets		
Surplus for the year	36 302 059	36 302 059
Total changes	36 302 059	36 302 059
Restated* Balance at 01 July 2013	**333 472 983**	**333 472 983**
Changes in net assets		
Surplus for the year	41 183 172	41 183 172
Total changes	41 183 172	41 183 172
Balance at 30 June 2014	**374 656 155**	**374 656 155**

* See Note 37

Cash Flow Statement

Figures in Rand	Notes	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		6 043 461	2 477 939
Grants		183 369 750	165 886 695
Interest income		6 022 423	3 722 835
Other receipts		2 961 623	2 428 888
		198 397 257	174 516 357
Payments			
Employee costs		(56 777 775)	(54 690 525)
Suppliers		(56 882 574)	(39 841 407)
Finance costs		(166 143)	(599 625)
Depreciation related adjustments		-	361 328
		(113 826 492)	(94 770 229)
Total receipts		198 397 257	174 516 357
Total payments		(113 826 492)	(94 770 229)
Net cash flows from operating activities	31	**84 570 765**	**79 746 128**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(41 867 276)	(38 253 579)
Proceeds from sale of property, plant and equipment	7	373 202	183 304
Purchase of other intangible assets	8	(261 859)	(350 493)
Proceeds from sale of other intangible assets	8	-	2 222
Net cash flows from investing activities		**(41 755 933)**	**(38 418 546)**
Net increase in cash and cash equivalents		**42 814 832**	**41 327 582**
Cash and cash equivalents at the beginning of the year		68 557 698	27 230 120
Cash and cash equivalents at the end of the year	5	**111 372 530**	**68 557 702**

* See Note 37

MBHASHE LOCAL MUNICIPALITY (EC 121)

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	482 444	247 265	**729 709**	764 933	**35 224**	
Rental of facilities and equipment	864 531	(147 836)	**716 695**	761 979	**45 284**	
Other income	9 879 307	(2 949)	**9 876 358**	620 848	**(9 255 510)**	39.6
Interest received - investment	1 700 000	370 528	**2 070 528**	6 022 423	**3 951 895**	39.1
Total revenue from exchange transactions	**12 926 282**	**467 008**	**13 393 290**	**8 170 183**	**(5 223 107)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	5 533 920	-	**5 533 920**	4 365 455	**(1 168 465)**	39.18
Licenses and permits	1 584 000	-	**1 584 000**	951 983	**(632 017)**	39.2
Government grants & subsidies	206 016 000	19 388 936	**225 404 936**	183 369 750	**(42 035 186)**	39.17
Transfer revenue						
Fines	635 664	232 991	**868 655**	626 813	**(241 842)**	39.3
Total revenue from non-exchange transactions	**213 769 584**	**19 621 927**	**233 391 511**	**189 314 001**	**(44 077 510)**	
'Total revenue from exchange transactions'	12 926 282	467 008	**13 393 290**	8 170 183	**(5 223 107)**	
'Total revenue from non-exchange transactions'	213 769 584	19 621 927	**233 391 511**	189 314 001	**(44 077 510)**	
Total revenue	**226 695 866**	**20 088 935**	**246 784 801**	**197 484 184**	**(49 300 617)**	
Expenditure						
Personnel	(59 727 325)	-	**(59 727 325)**	(38 122 476)	**21 604 849**	39.4
Remuneration of councillors	(18 850 898)	-	**(18 850 898)**	(18 866 588)	**(15 690)**	
Depreciation and amortisation	(24 692 249)	(7 000 000)	**(31 692 249)**	(33 618 096)	**(1 925 847)**	
Finance costs	-	-	**-**	(166 143)	**(166 143)**	39.1
Debt impairment	(2 815 277)	(17 885 066)	**(20 700 343)**	(963 238)	**19 737 105**	39.12
General Expenses	(73 435 272)	(17 368 673)	**(90 803 945)**	(64 762 923)	**26 041 022**	39.5
Total expenditure	**(179 521 021)**	**(42 253 739)**	**(221 774 760)**	**(156 499 464)**	**65 275 296**	
	226 695 866	20 088 935	**246 784 801**	197 484 184	**(49 300 617)**	
	(179 521 021)	(42 253 739)	**(221 774 760)**	(156 499 464)	**65 275 296**	
Operating surplus	**47 174 845**	**(22 164 804)**	**25 010 041**	**40 984 720**	**15 974 679**	
Gain on disposal of assets and liabilities	360 000	-	**360 000**	198 452	**(161 548)**	
	47 174 845	(22 164 804)	**25 010 041**	40 984 720	**15 974 679**	
	360 000	-	**360 000**	198 452	**(161 548)**	
Surplus before taxation	**47 534 845**	**(22 164 804)**	**25 370 041**	**41 183 172**	**15 813 131**	
Deficit before taxation	47 534 845	(22 164 804)	**25 370 041**	41 183 172	**15 813 131**	
Taxation	-	-	**-**	-	**-**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**47 534 845**	**(22 164 804)**	**25 370 041**	**41 183 172**	**15 813 131**	

MBHASHE LOCAL MUNICIPALITY (EC 121)

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from non-exchange transactions	5 226 100	-	**5 226 100**	705 841	**(4 520 259)**	39.7
VAT receivable	-	-	**-**	2 634 033	**2 634 033**	39.8
Consumer debtors	1 090 092	-	**1 090 092**	521 565	**(568 527)**	39.12
Cash and cash equivalents	33 587 965	-	**33 587 965**	113 514 043	**79 926 078**	39.1
	39 904 157	**-**	**39 904 157**	**117 375 482**	**77 471 325**	
Non-Current Assets						
Investment property	46 455 816	-	**46 455 816**	53 526 558	**7 070 742**	
Property, plant and equipment	281 284 567	22 506 263	**303 790 830**	237 974 103	**(65 816 727)**	39.17
Intangible assets	-	-	**-**	453 027	**453 027**	39.13
Heritage assets	-	-	**-**	9	**9**	
	327 740 383	**22 506 263**	**350 246 646**	**291 953 697**	**(58 292 949)**	
Non-current assets held for sale	-	-	**-**	2 114 500	**2 114 500**	39.14
Non-Current Assets	39 904 157	-	**39 904 157**	117 375 482	**77 471 325**	
Current Assets	327 740 383	22 506 263	**350 246 646**	291 953 697	**(58 292 949)**	
Non-current assets held for sale	-	-	**-**	2 114 500	**2 114 500**	
Total Assets	**367 644 540**	**22 506 263**	**390 150 803**	**411 443 679**	**21 292 876**	
Liabilities						
Current Liabilities						
Operating lease liability	-	-	**-**	4 157	**4 157**	
Payables from exchange transactions	26 780 272	-	**26 780 272**	10 038 163	**(16 742 109)**	39.15
Unspent conditional grants and receipts	-	-	**-**	20 053 536	**20 053 536**	39.17
Provisions	-	-	**-**	291 694	**291 694**	39.15
Bank overdraft	-	-	**-**	2 141 510	**2 141 510**	39.16
	26 780 272	**-**	**26 780 272**	**32 529 060**	**5 748 788**	
Non-Current Liabilities						
Operating lease liability	-	-	**-**	14 108	**14 108**	
Employee benefit obligation	-	-	**-**	1 841 507	**1 841 507**	
Provisions	-	-	**-**	2 402 846	**2 402 846**	
	-	**-**	**-**	**4 258 461**	**4 258 461**	
	26 780 272	-	**26 780 272**	32 529 060	**5 748 788**	
	-	-	**-**	4 258 461	**4 258 461**	
	-	-	**-**	-	**-**	
Total Liabilities	**26 780 272**	**-**	**26 780 272**	**36 787 521**	**10 007 249**	
Assets	367 644 540	22 506 263	**390 150 803**	411 443 679	**21 292 876**	
Liabilities	(26 780 272)	-	**(26 780 272)**	(36 787 521)	**(10 007 249)**	
Net Assets	**340 864 268**	**22 506 263**	**363 370 531**	**374 656 158**	**11 285 627**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets						
Reserves						
Accumulated surplus	340 864 268	22 506 263	**363 370 531**	374 656 158	**11 285 627**	

Accounting Policies

1. Presentation of Financial Statements

Statement of compliance

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

Basis of measurement

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

The principal accounting policy adopted in the preparation of these annual financial statements are set out below. These accounting policies are consistent with the previous period, except for the policies relating to the new standards and interpretations under note 2.1.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Reporting entity

Mbhashe Local Municipality ("the municipality") is a low capacity local government institution covering Dutywa, Willowvale and Elliotdale in the Eastern Cape.

1.3 Judgements, assumptions and estimates

The preparation of financial statements in conformity with GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of GRAP that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year include:

- Impairment of debtors. Management is required to assess the debtors portfolio on an individual and collective basis and to determine an appropriate impairment based on the collection trends, type of consumer and the general economic environment.
- Provision for landfill sites. Management is required to base the provision for the rehabilitation of the landfill sites on appropriate supporting documentation and assumptions relating to available permitted airspace, airspace utilization factor and waste acceptance rate.
- Assessment of conditions related to unspent grants. Management must exercise judgement in assessing the extent to which the conditions pertaining to grants have been met in order to release an appropriate amount to revenue.
- Assets. Management are required to exercise judgement when assessing the fair value / deemed cost of an asset, the extent of any potential impairment, the useful lives and depreciation methods applied to assets.
- Intangible assets. Management is required to assess the useful life of intangible assets based on the period the asset is expected to generate net cash inflows or service potential.

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Amounts are rounded off to the nearest Rand.

Going concern assumption

These annual financial statements have been prepared on a going concern basis.

Accounting Policies

1.3 Judgements, assumptions and estimates (continued)

Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated as indicated in note 37. The nature and reason for the re-classification is disclosed. Where accounting errors relating to prior years have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively in terms of the requirements of the standard, and the prior year comparatives are restated accordingly.

1.4 Value add tax

The municipality accounts for VAT on the payment basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1)(a) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or is out of scope for VAT purposes.

1.5 Investment property

Initial recognition

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Subsequent measurement and derecognition - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful life of investment property is estimated to be 40 years.

Investment property is derecognised on disposal when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Accounting Policies

1.6 Property, plant and equipment

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the municipality incurs either when the asset is acquired or as a consequence of having used the asset during a particular period. Where an asset is acquired at no cost, or for a nominal cost (i.e. a non-exchange transaction) its cost is deemed to be equal to the fair value of the asset.

When significant components of an item of property, plant and equipment have different useful lives, residual values or depreciation methods they are accounted for as separate items (major components) of property, plant and equipment for the purpose of calculating depreciation. This is also done for recognition purposes where each component is recognised separately. The cost of the day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Subsequent Measurement

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it is probable that the future economic benefits or service potential associated with the item will flow to the municipality and the cost or fair value of the item can be measured reliably.

Depreciation

Depreciation is calculated on the depreciable amount , using the straight-line method over the estimated useful lives of the assets. Useful lives, residual values and depreciation methods are reassessed annually and changes are accounted for as a change in estimate. Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 Non-current Assets Held for Sale and Discontinued Operations. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit.

The annual depreciation rates are based on the following estimated average asset lives:

Asset category	**Average useful life**
Plant and machinery	7 years
Furniture and fixtures	5 years
Motor vehicles (Note 1)	3 - 15 years
IT equipment	3 - 5 years
Tar Roads	10 - 30 years
Gravel access roads	3 - 10 years
Street lights	10 years
Buildings and community assets (Note 2)	15 - 40 years

(Note 1: Useful life of 15 years relates to heavy duty refuse and construction vehicles)
(Note 2: Useful life of 15 years relates to park homes)

Accounting Policies

1.6 Property, plant and equipment (continued)

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the surplus or deficit.

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The municipality recognises an intangible asset in its statement of financial position only when it meets the definition of an intangible asset and it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

For intangible assets with definite useful life amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with the Standards of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Initial recognition

The cost of an item of an asset is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be cable of operating in the manner intended by the municipality.

Where an intangible asset is acquired in exchange for non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the deemed cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the assets given up.

Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life.

Amortisation

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software - 3 years

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the surplus or deficit

Accounting Policies

1.8 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.9 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

The municipality's heritage assets does not meet the recognition criteria as there are no future economic benefits associated with the assets that will flow to the municipality. The fair values cannot be measured due to nature of assets. The assets are shown in the financial statements at a nominal value of R1 for record keeping.

1.10 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related parties include councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager and supply chain officials.

Key management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

Accounting Policies

1.11 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial instrument at fair value
- Financial instruments at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition

A financial assets/ financial liability shall be recognised in the statement of financial position when, and only when the municipality becomes a party to the contractual provisions of instrument.

Initial measurement financial assets and financial liabilities

When a financial asset/liability is recognised initially, the municipality shall measure it at its fair value plus, in the case of a financial asset/liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset/liability.

Subsequent measurement of financial assets and financial liabilities

The municipality shall measure all financial assets/liabilities after initial recognition using the following categories:
- financial instruments at amortised cost
- financial instrument at fair value

All financial assets measured at amortised cost, or cost, are subject to an impairment review in terms of GRAP 104: Financial Instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Receivables from exchange transactions

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.

Cash and cash equivalents

Cash and cash equivalents are recognised at fair value and subsequently carried at amortised cost using the effective interest method. Cash includes cash on hand (including petty cash) and investments comprising cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.11 Financial instruments (continued)

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. Trade and other payables from exchange transactions reflected on the face of the statement of financial position or in the notes thereto are classified as other financial liabilities.

Financial liabilities consist of trade payables and are initially measured at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the asset expires, is settled or waived, or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another party.

Financial liabilities

A financial liability is derecognised when and only when the financial liability is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived).

Impairment of financial assets

A financial asset measured at amortised cost or cost, is assessed at each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The municipality considers evidence of impairment at both a specific asset and collective asset level.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

Accounting Policies

1.12 Leases

Municipality as lessor

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Municipality as lessee

Operating lease payments are recognised in surplus or deficit on a straight-line basis over the term of the lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

1.13 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale.

1.14 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets includes.
- The assets ability to generate significant cash flows; and
- The degree to which it is utilised to generate commercial returns.

The carrying amounts of the municipality’s non-cash generating assets are reviewed at each reporting date to determine whether there is any indication of impairment. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the greater of an asset’s fair value less costs to sell and its value in use.

The value in use of a non-cash-generating asset is the present value of the non-cash-generating asset’s remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the depreciated replacement cost approach - The present value of the remaining service potential of a non cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable service amount. Impairment losses are recognised in surplus or deficit.

An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exist, the entity shall estimate the recoverable service amount of that asset.

1.15 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

Short term employee benefits (those payable within 12 months after the service is rendered) are measured on an undiscounted basis.

An accrual is recognised for the amount expected to be paid in terms of short term bonus or leave arrangements when the municipality has a present legal or constructive obligation to pay the amount as a result of a past service provided by an employee and the amount can be estimated reliably.

Liabilities for annual leave are recognised as they accrue to the employees. The liability is based on the total amount of leave days due to the employee and the total related remuneration package.

Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions to a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the surplus or deficit in the period in which the service is rendered by the relevant employees.

The municipality makes contributions to the following plans:
- South African Municipal Workers Union National Provident Fund
- Eastern Cape Group Municipal Pension Fund
- Eastern Cape Group Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:
- HOSMED
- Key Health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

Other long term employee benefit

For other long term employee benefit the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries. Gains and losses arising from actuarial valuation is recognised in surplus or deficit in the year in which they occur.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation.

The municipality has an unfunded other long term employee benefit that relates to long service awards.

1.16 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Contingencies

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

1.17 Revenue from exchange transactions

Revenue from exchange transactions includes revenue from service charges, rental of facilities and equipment, other income and interest received on investments.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts. Revenue from the rendering of the services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements and receiving service. Tariffs are determined per category of property usage, and are levied at a fixed monthly rate based on the category of the customer.

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Interest income is recognised using the effective interest rate method.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

1.18 Revenue from non-exchange transactions

Revenue from non-exchange transactions includes rates levied, licences and permits, fines and grants from other spheres of government.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and if applicable, there has been compliance with the relevant legal requirements or restrictions.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable.

Fines constitute both spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. As a result, revenue from spot fines and summonses is recognised when payment is received.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the definition and recognition criteria of an asset have been met.

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached restrictions, the grants are recognised as revenue when received by the entity.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant. If the compliance with the restrictions have not been met, the revenue is deferred and recognised as a liability

Interest earned on investments arising from grants is recognised as interest earned in surplus or deficit.

1.19 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

Accounting Policies

1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.22 Events after reporting date

The municipality discloses, for each material category of non-adjusting events after reporting date, the nature of the event and an estimation of its financial effect (if possible to estimate).

1.23 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the municipality has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Revenues and expenses have not been offset except when offserring is required or permitted by a standard of GRAP.

Figures in Rand	2014	2013

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2015	Additional disclosure will be required, which includes expenses as well as the carrying amount of segment assets and liabilities.
• GRAP 105: Transfers of functions between entities under common control	01 April 2015	The standard is not expected to have any impact on the municipality's operations.
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	The standard is not expected to have any impact on the municipality's operations.
• GRAP 107: Mergers	01 April 2015	The standard is not expected to have any impact on the municipality's operations.
• GRAP 20: Related parties	01 April 2014	The municipality will be required to enhance the processes required to identify, track and report on related party transactions. Limited information regarding related party transactions is currently reported in the Annual Financial Statements
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	The standard is not expected to have any impact on the municipality's operations.
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014	The standard is not expected to have any impact on the municipality's operations.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	The standard is not expected to have any impact on the municipality's operations.
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014	The standard is not expected to have any impact on the municipality's operations.
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014	The standard is not expected to have any impact on the municipality's operations.

Notes to the Financial Statements

2. New standards and interpretations (continued)

• GRAP32: Service Concession Arrangements: Grantor	01 April 2015	The standard is not expected to have any impact on the municipality's operations.
• GRAP108: Statutory Receivables	01 April 2015	The standard is not expected to have any impact on the municipality's operations.
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2015	The standard is not expected to have any impact on the municipality's operations.

Figures in Rand	2014	2013

3. VAT receivable

VAT refund due from SARS	2 634 033	4 433 318

The municipality is registered for VAT on the payment basis. VAT is claimed from / paid to SARS only once payment is made to suppliers or cash is collected on vatable supplies.

4. Consumer debtors

Gross balances		
Rates	17 689 146	20 628 233
Refuse	3 707 678	4 186 144
	21 396 824	**24 814 377**
Less: Allowance for impairment		
Consumer debtors impairment	(20 875 259)	(24 215 097)
Net balance		
Rates	17 689 146	20 628 233
Refuse	3 707 678	4 186 144
Provision for debt impairment	(20 875 259)	(24 215 097)
	521 565	**599 280**
Included in above is receivables from exchange transactions		
Refuse	3 707 678	4 186 144
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	17 689 146	20 628 233
Gross balance	**21 396 824**	**24 814 377**
Rates		
Current (0 -30 days)	396 126	424 428
31 - 60 days	377 923	413 195
61 - 90 days	362 934	398 680
91 - 120 days	16 552 163	19 391 930
	17 689 146	**20 628 233**
Refuse		
Current (0 -30 days)	77 212	74 662
31 - 60 days	75 612	71 095
61 - 90 days	73 824	70 456
91 - 120 days	3 481 030	3 969 931
	3 707 678	**4 186 144**
Impairment		
Consumer debtors impairment	(20 875 259)	(24 215 097)

Figures in Rand	2014	2013

4. Consumer debtors (continued)

Summary of debtors by customer classification

	2014	2013
Consumers		
Current (0 -30 days)	258 131	259 211
31 - 60 days	248 819	258 021
61 - 90 days	249 929	257 979
91 - 120 days	14 272 270	16 227 933
	15 029 149	17 003 144
Less: Allowance for impairment	(14 879 684)	(16 742 744)
	149 465	**260 400**
Industrial/ commercial		
Current (0 -30 days)	160 617	137 210
31 - 60 days	154 034	133 833
61 - 90 days	142 563	124 618
91 - 120 days	4 674 716	6 074 142
	5 131 930	6 469 803
Less: Allowance for impairment	(5 031 529)	(6 355 278)
	100 401	**114 525**
National and provincial government		
Current (0 -30 days)	54 590	31 001
31 - 60 days	50 683	20 808
61 - 90 days	44 267	14 947
91 - 120 days	1 086 206	1 274 675
	1 235 746	1 341 431
Less: Allowance for impairment	(964 046)	(1 117 075)
	271 700	**224 356**
Total		
Current (0 -30 days)	473 338	427 422
31 - 60 days	453 536	412 662
61 - 90 days	436 759	397 544
91 - 120 days	20 033 191	23 576 749
	21 396 824	24 814 377
Less: Allowance for impairment	(20 875 259)	(24 215 097)
	521 565	**599 280**
Less: Provision for debt impairment		
Consumer debtors impairment	(20 875 259)	(24 215 097)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(24 215 097)	(21 313 780)
Contributions to allowance	3 339 838	(2 901 317)
	(20 875 259)	**(24 215 097)**

Figures in Rand	2014	2013

5. Cash and cash equivalents

Cash on hand	451	-
Cash at bank	-	8 320 742
Call Investment deposits	113 513 592	60 236 956
	113 514 043	68 557 698
Bank overdraft	(2 141 510)	-
	111 372 533	**68 557 698**

Current assets	113 514 043	68 557 698
Current liabilities	(2 141 510)	-
	111 372 533	**68 557 698**

The municipality had the following bank and investment accounts:

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2014	**30 June 2013**	**30 June 2012**	**30 June 2014**	**30 June 2013**	**30 June 2012**
ABSA Bank Limited - Account Number 4048384454	-	-	-	-	(1 139 769)	(1 176 496)
First National Bank Limited - Account Number 62231175953	3 661 650	9 677 585	4 078 277	(2 142 551)	9 460 514	(3 920 209)
Standard Bank Limited - Account Number 280775954	1 750 965	1 751 719	1 752 350	1 750 965	1 751 719	1 752 350
ABSA Bank Limited - Account Number 9057233364	636 094	618 715	601 753	637 741	620 063	603 360
ABSA Bank Limited - Account Number 9056533115	41 254	40 307	39 387	41 345	40 380	39 475
First National Bank Limited - Account Number 62015966099	5 757	5 700	5 643	5 757	5 700	5 643
ABSA Bank Limited - Account Number 9205591041	1 611 434	1 562 565	1 515 219	1 615 738	1 566 417	1 519 578
First National Bank Limited - Account Number 62231177769	901 011	8 614 656	5 285 761	901 011	8 614 656	5 285 761
First National Bank Limited - Account Number 62231195323	87 337	85 194	83 331	87 337	85 194	83 331
ABSA Bank Limited - Account Number 9100317908	168 287	163 184	6 750 201	168 737	163 586	6 769 619
First National Bank - Account Number 62232870487	699 893	683 578	668 917	699 893	683 578	668 917
ABSA Bank Limited - Account Number 9110889747	280 088	279 574	279 295	280 169	279 597	279 318
First National Bank - Account Number 74321424942	106 846 239	46 226 468	15 236 167	107 324 899	46 426 065	15 319 473
Total	**116 690 009**	**69 709 245**	**36 296 301**	**111 371 041**	**68 557 700**	**27 230 120**

Note 10 "Unspent conditional grants" reflects details as to which bank accounts are used for the various grants.

First National Bank Limited - Account Number 62231175953 is the municipality's primary bank account.

The bank overdraft of R2 142 551 (2013: R0) relates to the timing of transfers into the account and the effective dates of payments made.

During the 2013/14 financial year, the physical cash balance was never in overdraft.

6. Investment property

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	56 500 000	(2 973 442)	53 526 558	57 457 000	(2 752 529)	54 704 471

Reconciliation of investment property - 2014

	Opening balance	Classified as held for sale	Depreciation	Total
Investment property	54 704 471	(957 000)	(220 913)	53 526 558

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	54 925 179	(220 708)	54 704 471

Rental income and operating expenditure relating to investment property was identified as not being material. As such these amounts have not been separately disclosed.

The transfer of R957 000 in the current year relates to erven that were identified for sale and were transferred to non current assets held for sale. Refer to note 34.

7. Property, plant and equipment

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and Buildings	33 676 007	(8 974 590)	24 701 417	34 240 205	(8 238 757)	26 001 448
Plant and machinery	5 617 262	(1 537 365)	4 079 897	2 674 068	(1 217 257)	1 456 811
Furniture and fixtures	2 075 546	(1 333 505)	742 041	1 997 459	(1 109 682)	887 777
Motor vehicles	9 598 266	(4 097 951)	5 500 315	9 368 306	(3 419 685)	5 948 621
IT equipment	2 069 718	(1 153 249)	916 469	1 870 263	(1 083 044)	787 219
Infrastructure and community assets	260 745 137	(161 398 064)	99 347 073	250 705 903	(131 810 091)	118 895 812
Landfill site	2 216 046	(36 940)	2 179 106	2 216 046	(27 705)	2 188 341
Streetlights and electrification	6 707 407	(2 679 580)	4 027 827	6 028 780	(2 008 839)	4 019 941
WIP	96 479 958	-	96 479 958	70 387 505	-	70 387 505
Total	**419 185 347**	**(181 211 244)**	**237 974 103**	**379 488 535**	**(148 915 060)**	**230 573 475**

Notes to the Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Classified as held for sale	Transfers	Depreciation	Total
Land and Buildings	26 001 448	593 302	-	(1 157 500)	-	(735 833)	24 701 417
Plant and machinery	1 456 811	3 110 012	(29 884)	-	-	(457 042)	4 079 897
Furniture and fixtures	887 777	105 982	(6 611)	-	-	(245 107)	742 041
Motor vehicles	5 948 621	806 780	(115 364)	-	-	(1 139 722)	5 500 315
IT equipment	787 219	440 886	(22 891)	-	-	(288 745)	916 469
Infrastructure and community assets	118 895 812	46 492	-	-	9 992 742	(29 587 973)	99 347 073
Landfill site	2 188 341	-	-	-	-	(9 235)	2 179 106
Streetlights and electrification	4 019 941	678 627	-	-	-	(670 741)	4 027 827
WIP	70 387 505	36 085 195	-	-	(9 992 742)	-	96 479 958
	230 573 475	**41 867 276**	**(174 750)**	**(1 157 500)**	**-**	**(33 134 398)**	**237 974 103**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land and Buildings	26 848 613	376 705	(502 000)	-	(721 870)	26 001 448
Plant and machinery	1 483 737	440 457	(189 513)	-	(277 870)	1 456 811
Furniture and fixtures	1 289 186	91 531	(222 594)	-	(270 346)	887 777
Motor vehicles	4 002 452	3 086 901	(177 810)	-	(962 922)	5 948 621
IT equipment	1 039 952	246 239	(232 933)	-	(266 039)	787 219
Infrastructure and community assets	134 448 352	-	-	11 738 384	(27 290 924)	118 895 812
Landfill site	2 197 576	-	-	-	(9 235)	2 188 341
Streetlights and electrification	3 919 466	644 293	-	-	(543 818)	4 019 941
WIP	48 758 436	33 367 453	-	(11 738 384)	-	70 387 505
	223 987 770	**38 253 579**	**(1 324 850)**	**-**	**(30 343 024)**	**230 573 475**

8. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	996 427	(543 400)	453 027	734 568	(280 616)	453 952

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	453 952	261 859	(262 784)	453 027

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	230 022	350 493	(2 222)	(124 341)	453 952

Figures in Rand	2014	2013

9. Payables from exchange transactions

Trade payables	2 939 310	2 241 393
Debtors with credit balances	698 043	443 287
Accrued leave pay	3 304 440	3 359 892
Accrued bonus	641 852	633 165
Contract retentions	2 044 684	2 044 684
Other creditors	409 837	637 582
	10 038 166	**9 360 003**

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	20 053 536	12 014 215
Expanded Public Works Program (EPWP)	-	1 000 000
	20 053 536	**13 014 215**

Movement during the year

Balance at the beginning of the year	13 014 215	-
Additions during the year	53 268 000	58 100 000
Income recognised during the year	(46 228 679)	(45 085 785)
	20 053 536	**13 014 215**

The reconciliation pertaining to MIG and EPWP grants is included as part of Note 14 "Government grants and subsidies".

Figures in Rand	2014	2013

11. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Environmental rehabilitation	2 262 022	140 824	2 402 846
Other provisions	269 643	22 051	291 694
	2 531 665	**162 875**	**2 694 540**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Environmental rehabilitation	2 246 581	15 441	2 262 022
Other provisions	-	269 643	269 643
	2 246 581	**285 084**	**2 531 665**

Analysis of provisions:

	2014	2013
Non-current liabilities	2 402 846	2 262 022
Current liabilities	291 694	269 643
	2 694 540	**2 531 665**

Environmental rehabilitation provision

The environmental rehabilitation provision is based on the following assumptions:
- available permitted airspace
- airspace utilisation factor
- waste acceptance rate

The landfill site lifespan expectancy from the end of the financial year is expected to be the following:
- Idutywa 83 years
- Elliotdale 250 years

There is uncertainty around:
- Timing of when the sites will be rehabilitated
- Total actual costs to undertake the rehabilitation

12. Employee benefit obligations

Defined benefit plan

The municipality has an unfunded defined benefit plan that relates to long service awards.

An actuarial valuation was performed using generally accepted actuarial principles.

The reporting entity and those charged with the governance of the entity are responsible for determining the assumption used in valuations of this nature and should give evidence of their approval of the assumptions.

The disclosure shown below assumes that actuarial gain and losses are recognised immediately as required in terms of GRAP 25.

The amounts recognised in the statement of financial position are as follows:

	2014	2013
Carrying value		
Long service award	(1 841 507)	(1 630 218)

Figures in Rand	2014	2013

12. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	1 630 218	1 380 767
Service cost	240 506	228 181
Interest cost	118 631	102 682
Benefits paid	(214 627)	(222 648)
Actuarial loss	66 779	141 236
	1 841 507	**1 630 218**

Valuation assumptions

Other assumptions

All staff members retire at age 65. No allowance is made for early retirement either due to ill health or at the option of the member.

Economic assumptions

Discount rates used	8.50 %	7.75 %
Salary escalation rate	7.00 %	6.25 %

The above discount rates have been based on market indicators at each year end. For 2014 the rate is based on market yields on government bonds as at the end of June 2014 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation.

For the purposes of the valuation the difference between the discount rate and the salary inflation rate is more significant than the individual items. The gap of 1.5% applied in 2014 [2013: 1.5%] is consistent with rates generally used in the market for the valuation of benefits of this nature.

The results of the valuation are sensitive to the assumptions chosen.

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Municipal Pension Fund
- Eastern Cape Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

These contributions have been expensed.

Notes to the Financial Statements

Figures in Rand	2014	2013

13. Revenue

Service charges	764 933	916 485
Rental of facilities and equipment	761 979	537 274
Other income	620 848	298 554
Interest received - investment	6 022 423	3 722 835
Property rates	4 365 455	4 710 025
Licences and permits	951 983	973 431
Government grants & subsidies	183 369 750	165 886 695
Fines	626 813	619 629
	197 484 184	**177 664 928**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	764 933	916 485
Rental of facilities and equipment	761 979	537 274
Other income	620 848	298 554
Interest received - investment	6 022 423	3 722 835
	8 170 183	**5 475 148**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	4 365 455	4 710 025
Licence and permits	951 983	973 431
Transfer revenue		
Government grants & subsidies	183 369 750	165 886 695
Fines	626 813	619 629
	189 314 001	**172 189 780**

Figures in Rand	2014	2013

14. Government grants and subsidies

Equitable share	136 195 000	120 099 000
Municipal System Improvement Grant	890 000	800 000
Integrated Electrification Programme	18 000 000	15 000 000
Finance Management Grant	1 550 000	1 500 000
Other government grants	946 071	701 910
Municipal Infrastructure Grant	23 788 679	27 785 785
Extended Public Works Programme	2 000 000	-
	183 369 750	**165 886 695**

Finance Management Grant

Current-year receipts	1 550 000	1 500 000
Conditions met - transferred to revenue	(1 550 000)	(1 500 000)
	-	**-**

The Financial Management Grant is a conditional grant. The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. The focus of the FMG Grant is to build awareness and undertake training on MFMA reforms including budgeting, reporting and financial processes.

Municipal Infrastructure Grant

Balance unspent at beginning of year	12 014 215	-
Current-year receipts	31 828 000	39 800 000
Conditions met - transferred to revenue	(23 788 679)	(27 785 785)
	20 053 536	**12 014 215**

The Municipal Infrastructure Grant is a conditional grant, the purpose of which is to provide all South Africans with at least a basic level of service through the provision of grant finance to cover the capital cost of basic infrastructure for the poor. It is part of government’s overall strategy to eradicate poverty and to create conditions for local economic development. The Municipality utilises these funds to primarily fund access roads and related infrastructure.

Municipal Systems Improvement Grant

Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(890 000)	(800 000)
	-	**-**

The Municipal Systems Improvement Grant is a conditional grant. The purpose of the MSIG is to support municipalities in building in-house capacity in terms of systems focusing on Local and Economic Development; financial viability, institutional development and good governance.

Figures in Rand	2014	2013

14. Government grants and subsidies (continued)

EPWP

Balance unspent at beginning of year	1 000 000	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(2 000 000)	-
	-	**1 000 000**

The Expanded Public Works Programme (EPWP) is a conditional grant and is one of government's short-to-medium term programmes aimed at alleviating and reducing unemployment. The EPWP will achieve this aim through the provision of work opportunities coupled with training.

Integrated Electrification Programme

Current-year receipts	18 000 000	15 000 000
Conditions met - transferred to revenue	(18 000 000)	(15 000 000)
	-	-

The Integrated Electrification Programme is a conditional grant. The purpose of the Integrated Electrification Programme Grant is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme.

15. Property rates

Rates received

Residential	4 365 455	4 710 025

Valuations

The last general valuation came into effect on 1 July 2009. The valuation was extended for 1 year.

A general rate of R 0.013 (2013: R 0.14) is applied to residential property valuations to determine assessment rates.
A general rate of R 0.015 (2013: R 0.16) is applied to business property valuations to determine assessment rates.
A general rate of R 0.016 (2013: R 0.18) is applied to government property valuations to determine assessment rates.

16. Service charges

Refuse removal	764 933	916 485

17. Other income

Administration Fees	253 001	129 355
Building Plans	25 965	84 589
Burial and cemetery	1 687	2 794
Chair Hire	-	445
Public Toilets	52 263	35 621
Pound Fees	215 379	33 460
Sundry income	72 553	12 290
	620 848	**298 554**

18. Interest received - external investments

Interest revenue

Interest on bank accounts and investment balances	6 022 423	3 722 835

Figures in Rand	2014	2013

19. Employee related costs

Basic	26 486 812	27 636 351
Bonus (13th cheque)	1 550 758	1 348 290
Medical aid - company contributions	1 991 628	1 389 104
Unemployment Insurance Fund	262 955	221 669
Skills Development Levy	509 724	304 418
Leave pay provision charge	410 934	207 192
Bargaining council contributions	10 743	8 915
Post-employment benefits	3 315 732	3 183 842
Travel, motor car, accommodation, subsistence and other allowances	363 826	574 247
Overtime payments	1 853 642	1 126 625
Long-service awards	211 289	249 451
Housing benefits and allowances	805 723	307 111
Casual wage employment	348 710	426 530
Stand by Allowances	-	49 209
	38 122 476	**37 032 954**

Remuneration of Acting Municipal Manager

Annual Remuneration	243 661	291 539
Backpay	7 025	14 655
Contributions to UIF, medical and pension funds	4 384	57 362
Travel, motor car, accommodation, subsistence and other allowance	33 279	97 973
Acting allowance	-	240 118
Lump sum payment	-	1 200 000
	288 349	**1 901 647**

The municipality requested the secondment of a senior official from the Department of Co-operative Governance and Traditional Affairs to act as a Municipal Manager until such time a permanent Municipal Manager is appointed.

The following officials acted as Municipal Manager during the year:
- Adv O. S. Ngqele
- Ms J Nxumalo
- Mr M. F Nofemela

Remuneration of Chief Finance Officer

Annual Remuneration	498 397	335 291
Backpay	69 971	12 317
Bonus	-	25 654
Acting allowance	-	289 467
Travel, motor car, accommodation, subsistence and other allowance	205 259	77 180
Contributions to UIF, medical and pension funds	129 024	65 163
Leave pay	-	62 560
	902 651	**867 632**

Remuneration of Community Services Director

Annual remuneration	498 434	363 529
Backpay	69 971	11 059
Travel, motor car, accommodation, subsistence and other allowance	196 360	153 002
Contributions to UIF, medical and pension funds	120 880	87 322
Leave pay	-	11 783
Acting allowance	-	136 422
	885 645	**763 117**

Figures in Rand	2014	2013

19. Employee related costs (continued)

Remuneration of Acting Corporate Services Director

Annual remuneration	305 825	290 516
Backpay	20 472	12 450
Bonus	56 133	24 020
Acting allowance	439 372	437 591
Travel, motor car, accommodation, subsistence and other allowance	37 758	26 242
Contributions to UIF, medical and pension funds	98 297	91 704
	957 857	**882 523**

Mr M Nako's portfolio was Acting Director for the period July to February 2014, Miss G Sityata was appointed as Acting Director as at March 2014.

Remuneration of Acting Infrastructure Services Director

Annual remuneration	219 245	265 970
Backpay	23 963	87 341
Acting allowance	271 134	437 591
Travel, motor car, accommodation, subsistence and other allowance	55 855	116 800
Contributions to UIF, medical and pension funds	79 707	69 073
Leave pay	81 608	-
	731 512	**976 775**

Mr S Gwentshe's portfolio was Acting Director for the period July 2013 to 30 November 2013, Mr A T Masangwana was appointed as Acting Director for the period 1 February 2014 to 28 March 2014.

Remuneration of Infrastructure Service Director

Annual remuneration	175 556	-
Travel, motor car, accommodation, subsistence and other allowance	29 189	-
Contributions to UIF, medical and pension funds	1 684	-
	206 429	**-**

Miss N Y Mqoqi was appointed as Director from 1 April 2014.

Remuneration of Acting Local Economic Development Manager

Annual remuneration	192 149	157 255
Backpay	44 327	-
Travel, motor car, accommodation, subsistence and other allowance	26 160	-
Contributions to UIF, medical and pension funds	64 583	46 679
Bonus	-	22 481
Acting allowance	328 822	259 217
	656 041	**485 632**

Mr M K Mcopele was Acting Manager for the period 1 July 2013 to 28 February 2014.

Remuneration of Acting Land and Housing Manager

Annual remuneration	206 728	326 498
Backpay	44 327	11 301
Acting allowance	328 822	259 217
Travel, motor car, accommodation, subsistence and other allowance	18 133	153 422
Contributions to UIF, medical and pension funds	70 374	70 441
	668 384	**820 879**

Figures in Rand	2014	2013

19. Employee related costs (continued)

Mr L Qunta was Acting Manager for the period 1 July 2013 to 28 February 2014.

Developmental Planning Director

Annual remuneration	196 179	-
Travel, motor car, accommodation, subsistence and other allowance	70 079	-
Contributions to UIF, medical and pension funds	37 516	-
	303 774	**-**

The Municipality has adopted a new organogram for the year commencing 1 July 2013. This resulted in "Land and Housing" department and "Local Economic Development" department being merged to form a new department called "Developmental Planning". Mr C B Mqingwana was appointed as director from 04 March 2014.

20. Remuneration of councilors

Council remuneration and allowances	18 829 791	17 907 022
Councillors's allowance	36 797	-
	18 866 588	**17 907 022**

Analysis of council remuneration		
Mayor	680 136	715 155
Speaker	543 911	493 305
Traditional leaders	141 530	189 352
Executive committee members	2 375 515	2 575 592
Councillors remuneration	9 726 376	7 321 105
Councillors allowances	1 725 758	3 603 545
Ward committee remuneration	3 673 362	3 008 968
	18 866 588	**17 907 022**

21. Finance costs

Interest paid on trade and other payables	25 319	584 184
Rehabilitation of landfill sites	140 824	15 441
	166 143	**599 625**

Included in the R584 184 (for the year ended 30 June 2013) relating to interest paid on trade and other payables is an amount of R566 142 relating to interest incurred on various outstanding tax matters that was settled in the current financial year. This amount is included in the R2 438 068 reported as fruitless/wasteful expenditure in Note 27

22. Debt impairment

Contributions to debt impairment provision - consumer and staff debtors	(4 028 499)	2 933 372
Bad debts written off	4 991 737	-
	963 238	**2 933 372**

The debt impairment amount consists of the following:		
Consumer debtors	963 238	2 828 226
Sundry debtors	-	105 146
	963 238	**2 933 372**

Figures in Rand	2014	2013

23. Administrative and other expenditure

Advertising	439 033	378 638
Bank charges	119 751	150 518
Audit committee fees	410 955	542 396
Auditors remuneration	2 637 083	2 224 025
Cleaning	403 188	430 953
Community development and public participation	770 014	710 114
Conferences and seminars	1 242 458	1 088 159
Consumables	35 265	60 120
Donations	299 406	401 512
Electricity	497 490	444 981
Entertainment	599 565	719 990
Equipment and plant hire	348 497	552 420
Penalties	-	1 908 019
Expanded Public Works Programme	2 929 736	-
Fuel and oil	1 194 353	1 077 870
IT expenses	320 782	158 789
Indigent support	8 795 517	2 013 853
Insurance	351 724	181 106
Lease rentals on operating lease	1 387 310	1 189 484
Legal expenses	2 109 356	2 374 074
Magazines, books and periodicals	229 265	113 506
Motor vehicle expenses	261 029	56 517
Other expenses	7 940 556	7 319 719
Postage and courier	6 070	6 702
Printing and stationery	368 899	652 338
Professional fees	311 372	1 044 806
Projects	7 590 376	8 694 291
Promotions and Branding	85 000	100 000
Protective clothing	298 930	358 564
Refuse	343 673	173 995
Repairs and maintenance	13 250 411	6 236 407
Security	2 072 771	1 619 617
Software expenses	520 811	378 786
Special programme	951 397	750 252
Subscriptions and membership fees	457 017	877 637
Telephone and fax	1 379 346	1 696 994
Tourism development	766 781	508 351
Training	709 653	1 503 897
Travel - local	1 804 445	1 831 437
Water	523 638	890 752
	64 762 923	**51 421 589**

Figures in Rand	2014	2013

24. Commitments

Authorised capital expenditure

Approved and contracted for		
• Infrastructure assets	15 388 075	13 930 414
• Community assets	5 399 017	5 471 386
	20 787 092	**19 401 800**

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	673 084	800 195
- in second to fifth year inclusive	93 688	766 772
	766 772	**1 566 967**

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. No contingent rental is payable.

The municipality is party to four operating lease commitments. The majority of the lease commitment relates to a lease of photocopiers for 36 months with no escalation clause. The balance of the remaining lease commitment relates to leases of photocopiers for 60 months with an annual escalation of 10%.

Figures in Rand	2014	2013

25. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager and supply chain officials.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public.

Related party balances

Municipal accounts - Owed by councillors		
Quvile N (Councillor up to and including March 2013)	-	44 199
Jafta MS	-	72 742
Nonjaca NV	4 892	12 697
Lumkwana N	-	7 223
Amounts included in Trade Payables regarding deposits received from related parties for sale of land		
M Peter	15 000	-
C Mqingwana	15 000	-
M Mbomvu	15 000	-
M Mcotsho	40 000	-
NN Ndlodaka	15 000	-
M Noyila	15 000	-
N Mfecane	20 000	-
M Nako	38 800	-

During the year the municipality sold land to the community. Included in deposits received are the above amounts from councillors and employees of the municipality.

The land has not been transfered to the buyers. Transfer will only take place when the full price of the property has been paid. (Refer to Non-current assets held for sale, note 34, for more details).

Related party transactions

Transactions between the municipality and related parties		
Imitha Yelanga Engineers CC (Note 1)	86 654	-
Brother To Many CC (Note 2)	121 380	-

Note 1: Contract was awarded to the service provider prior to Mr P Rulumeni (who is a director of Imitha Yelanga Engineers CC) being elected as a councillor.
Note 2: Contract was awarded to the service provider prior to Mr C. B Mqingwana (who is a director of Brother To Many CC) being employed by the municipality as a director.

During the year the Municipality rendered services to various Councillors residing within its jurisdiction. These services include rates and refuse charges.

The services rendered to related parties are charged at approved tariffs that were advertised to the general public. Amounts outstanding are unsecured and will be settled in cash.

26. Unauthorised expenditure

Opening balance	34 915 688	1 655 555
Unauthorised expenditure current year - non cash item	-	33 260 133
	34 915 688	**34 915 688**

Figures in Rand	2014	2013

27. Fruitless and wasteful expenditure

Opening balance	5 539 843	2 926 293
Fruitless and wasteful expenditure - current year	462 283	2 613 550
	6 002 126	**5 539 843**

Details / incidents of fruitless and wasteful expenditure relating to this period only		
Expenditure relating to catering	1 125	20 875
Legal costs	-	82 884
Accommodation	-	4 199
Advertising costs	49 004	45 678
Late registration fees	-	300
SARS interest and penalties	22 051	2 438 068
Invoice overstated	386 000	-
Interest on overdue accounts	4 103	21 546
	462 283	**2 613 550**

A report on fruitless and wasteful expenditure incurred was submitted to the Council for consideration and refered to Municipal Public Accounts Committee. Council has taken a resolution to investigate all incidents of fruitless and wasteful expenditure.

In September 2012 SARS concluded a special review of the municipality's' tax affairs. The review covered the tax periods 2008 - 2012 and resulted in R2 438 068 penalties and interest being levied in the 2012/2013 financial period.

No fruitless and wasteful expenditure was condoned, written off or recovered during the year.

28. Irregular expenditure

Opening balance	93 587 075	83 322 871
Add: Irregular Expenditure - current year	10 118 394	10 264 204
Less: Amounts condoned	(75 079 472)	-
	28 625 997	**93 587 075**

	Restated
Irregular expenditure previously disclosed as at 30 June 2013	8 962 470
Suppliers in the service of the state	979 015
Contracts awarded to suppliers who did not submit declaration of interest	150 000
Suppliers not on supplier database	31 819
BEE certificates not submitted for audit purposes	140 900
	10 264 204

Figures in Rand	2014	2013

28. Irregular expenditure (continued)

Details of irregular expenditure – current year

Description of incident	Steps taken	-
Transportation of people to Ngcingwane's state	Sent to MPAC	259 500
Instruction from former mayor and speaker to rectify municipal buildings	Sent to MPAC	191 744
Repairs made to new building due to visit of the state president	Sent to MPAC	66 200
Refuse collection done without an order	Sent to MPAC	44 000
Payments to service providers in terms of irregular contracts concluded in prior years		1 102 579
Less than 3 quotes received		7 880 753
Payment to sole supplier service provider after contract expired		112 302
Contracting with officials in the serivce of the state		461 316
		10 118 394

Deviations to the value of R353 475.61 (2013:857 266.70 - restated) were approved during the financial period.

29. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA Fees

	2014	2013
Opening balance	993 792	648 630
Current year subscription	459 873	860 662
Amount paid - current year	(24 000)	-
Amount paid - previous years	(993 792)	(515 500)
	435 873	**993 792**

Audit fees

	2014	2013
Current year fees	2 637 083	2 224 025
Amount paid - current year	(2 637 083)	(2 224 025)
	-	**-**

PAYE and UIF

	2014	2013
Current year charges	8 469 279	7 947 945
Amount paid - current year	(8 469 279)	(7 947 945)
	-	**-**

Pension and Medical Aid Deductions

	2014	2013
Current year charges	8 630 942	5 643 361
Amount paid - current year	(8 630 942)	(5 643 361)
	-	**-**

The municipality does not contribute to councillors' medical aid and pension plans.
Refer to Note 25 "Related parties" for disclosure of amounts owed by councillors.

Figures in Rand	2014	2013

29. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	2 634 033	4 433 318

All VAT returns for the financial period were submitted by the due dates.

30. Contingencies

Contingent liabilities

Litigation matters:

The municipality was party to the following litigations, however the financial impact has not been finalised as of yet:
- Application for rescission
- Collection matter

The municipality is currently party to the following litigation:	Projected cost
Traditional leaders demanding payment/allowances	200 000
Appeal by Traditional Leaders. Date of hearing not yet set	250 000
Civil case relating to N.E. Rulashe. Date of hearing not yet set	100 000
Matters relating to eviction orders	211 719
Interdict - urgent application was lodged against the municipality	150 000
Labour related matters	650 000
High court application in Mthatha, application opposed solely due to costs order sought. Pending appeal municipality to abide decision of the court. Costs application against the municipality withdrawn.	375 000
Leases	300 000
Legal opinion on taxation of fees charged by attorneys by master of the high court	35 230
Rescission of judgement - Negotiations underway	40 000
Vetting contract	8 000
Interdict - Dispute with the municipality, B S Titus Holdings and BP Garage. Matter to kept in abeyance	90 000
Eviction	8 000
Rescission - An application was made by the municipality on the court order which was granted against the municipality with regard to non payments of 3 councillors	105 136
Interdict - Land invasion by Willowvale community	119 303
Damages arising from assault - awaiting trial date	900 000
Damages arising from fire - filed plea with special plea	3 500 000
Awaiting instruction to go further	200 000
Interim order confirmed with costs	80 000
	7 322 388

Figures in Rand	2014	2013

31. Cash generated from operations

	2014	2013
Surplus	41 183 172	36 302 059
Adjustments for:		
Depreciation and amortisation	33 618 096	30 326 761
Loss/(gain) on sale of assets and liabilities	(198 452)	1 141 546
Debt impairment	963 238	2 933 372
Movements in operating lease assets and accruals	(21)	(5 008)
Movements in retirement benefit assets and liabilities	211 289	249 451
Movements in provisions	162 875	285 084
Assets related adjustments	-	361 328
Changes in working capital:		
Receivables from exchange transactions	-	3 859 646
Consumer debtors	(885 523)	(2 954 739)
Other receivables from non-exchange transactions	(689)	2 309 663
Payables from exchange transactions	678 174	(1 714 109)
VAT	1 799 285	(6 363 141)
Unspent conditional grants and receipts	7 039 321	13 014 215
	84 570 765	**79 746 128**

32. Risk management

Financial risk management

The Municipality is exposed to the following risks:

- market risk (including interest rate risk);
- credit risk; and
- liquidity risk

The municipality seeks to minimise the effects of these risks in accordance with the municipality’s policies approved by the Council. The municipality does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the municipality’s short, medium and long-term funding and cash flow requirements.

The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The Finance Department monitors the cash flow requirements on a regular basis.

The Municipality's investment portfolio consists of short term deposits and current accounts with a notice period of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

Figures in Rand	2014	2013

32. Risk management (continued)

Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of interest rate risk
Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cash flow risk exposures on long-term financing.

The exposure to interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The Municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the entity's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such, the municipality is not able to select only creditworthy counterparties.

Potential concentrations of credit rate risk consist mainly of investments, trade receivables and cash and cash equivalents.

Trade receivables comprise of a large number of consumers, dispersed across different industries and geographical areas. Trade receivables are presented net of an allowance for impairment.

The existing trade receivable portfolio has historically been significantly impaired as a result of a number of contributing factors, including an inaccurate and unreliable customer database. The municipality has started the process of cleansing its trade receivable portfolio to ensure completeness of its trade receivables. All policies affecting trade receivables have been reviewed and updated to assist the municipality in the cleansing process. Refer note 4 for more detailed information on the composition of the trade receivables portfolio.

Except for trade receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

Cash and cash equivalents (including investments) are held with the following counter parties:	**2014**	**2013**
ABSA Bank	2 743 730	1 530 275
First National Bank (Primary Bank)	109 018 894	65 275 704
Standard Bank	1 750 965	1 751 719

33. Heritage assets

	2014			2013		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Historical monuments	9	-	9	9	-	9

Reconciliation of heritage assets 2014

	Opening balance	**Total**
Heritage assets which fair values cannot be reliably measured: (Para .94)		

Figures in Rand	2014	2013

33. Heritage assets (continued)

Historical monuments	9	9

Reconciliation of heritage assets 2013

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Historical monuments	9	9

Heritage assets which fair values cannot be reliably measured

Graves, Caves and Memorial Sites

The municipality's heritage assets consists of graves, grave sites, traditional dwelling and caves. Their fair value cannot be reliably measured. Fair value cannot be determined reliably due to the nature of the assets. The assets have been allocated a nominal value of R1 for record keeping.

Following is the list of heritage assets:

- Graves (Gcaleka's Grave, King Hintsa's Grave and King Sarhili's Grave)
- Memorial sites (Nqadu Great Place, Fort Bowker and Fort Malan Memorial)
- Caves (Sinqumeni Caves, Ngqamakhwe Rock Art and Ludiza Cave)
- Mhlakaza's House
- Nongqawuse's House

34. Non-current assets held for sale

Assets and liabilities

Non-current assets held for sale		
Transfer from property, plant and equipment	1 157 500	-
Transfer from investment property	957 000	-
	2 114 500	**-**

The Municipality has developed and serviced two residential development areas consisting of a number of individual plots, one in Dutywa and another in Willowvale. During the 2013/14 financial year Council approved the sale of the plots.

Dutywa plots:

During the first quarter of 2014 the Municipality advertised the plots in Dutywa for sale. The majority of the plots were subscribed. Buyers paid deposits and entered into contracts with the municipality, the full purchase price is payable within 12 months from the date of sale. The deposits received from the buyers are included in the Municipality's current liabilities as ownership of the plots only transfers once the full purchase price has been paid.

Willowvale plots:

During the second quarter of 2014 the Municipality advertised the plots in Willowvale for sale. During July 2014 interested buyers paid deposits to secure the plots. The sales are expected to be concluded within 12 months from the advertisement date. Refer to note 38 "Events afer reporting date"

Figures in Rand	2014	2013

35. Receivables from non-exchange transactions

Other receivables from non-exchange revenue	705 841	705 152

Receivables from non-exchange transactions

Balance as at 30 June 2014	Gross Balances	Provision for doubtful debts	Net balance
Recoveries of staff expenses	220 174	(220 174)	-
SARS debtor	465 106	-	465 106
Other debtors	345 881	(105 146)	240 735
	1 031 161	**(325 320)**	**705 841**

Balance as at 30 June 2013	Gross balances	Provision for doubtful debts	Net balance
Recoveries of staff expenses	220 174	(220 174)	-
SARS debtor	471 602	-	471 602
Other debtors	338 696	(105 146)	233 550
	1 030 472	**(325 320)**	**705 152**

36. Financial instruments disclosure

Categories of financial instruments

Financial instruments are classified in the following categories:

Financial assets: At amortised cost

Financial liabilites: At amortised cost

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities assumed. The amounts relating to financial instruments reflected below approximates fair value.

2014

Financial assets

	At amortised cost	**Total**
Receivables from non-exchange transactions	705 841	705 841
Consumer debtors	521 565	521 565
Cash held with bank institutions	113 513 592	113 513 592
Vat receivables	2 634 033	2 634 033
	117 375 031	**117 375 031**

Financial liabilities

	At amortised cost	**Total**
Accrued bonus	641 852	641 852
Staff leave accrual	3 304 440	3 304 440
Trade payables	2 939 310	2 939 310
Provisions	2 694 540	2 694 540
Payments received in advance	698 043	698 043
Sundry creditors	409 837	409 837
Contract retentions	2 044 684	2 044 684
	12 732 706	**12 732 706**

Figures in Rand	2014	2013

. **Financial instruments disclosure (continued)**

2013

Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	705 152	705 152
Consumer debtors	599 280	599 280
Cash held with bank institutions	68 557 698	68 557 698
Vat receivables	4 433 318	4 433 318
	74 295 448	**74 295 448**

Financial liabilities

	At amortised cost	Total
Accrued bonus	633 165	633 165
Staff leave accrual	3 359 892	3 359 892
Trade payables	2 241 393	2 241 393
Provisions	2 531 665	2 531 665
Payments received in advance	443 287	443 287
Sundry creditors	637 582	637 582
Contract retentions	2 044 684	2 044 684
	11 891 668	**11 891 668**

Figures in Rand	2014	2013

37. Prior period errors

During the current financial period the following errors were identified with regards to transactions processed against accumulated surpluses prior to 1 July 2012. The corrections restated below have been effected to address these transactions. The net effect on Accumulated Surpluses is summarised below:

The summary of correction of errors is set out below

37.1 Adjustment to opening balance of comparative period

Accumulated surplus		
Balance as previously stated - 1 July 2012	-	(296 765 208)
Correction of opening balance of property, plant and equipment	-	(296 900)
Adjusting cash and cash equivalents with accrued interest	-	(108 801)
	-	**(297 170 909)**

37.2 Adjustment to comparative period balances - 30 June 2013

Net movement in statement of financial position

Property, plant and equipment	-	296 900
Cash and cash equivalents	-	205 296
	-	**502 196**

Details of the above movements are provided below:

Cash and cash equivalents		
Balance as previously reported	-	68 352 402
Accrued interest on investment - 30 June 2012	-	108 801
Accrued interest on investment - 30 June 2013	-	96 495
	-	**68 557 698**

Property, plant and equipment		
Balance as previously reported	-	230 276 575
Correction of PPE previously identified bt not accounted for	-	296 900
	-	**230 573 475**

Statement of Financial Performance		
Surplus for the year as previously reported for the year ended 30 June 2013	-	36 205 564
Accrued interest on investment - 30 June 2013	-	96 495
	-	**36 302 059**

38. Events after the reporting date

The new general valuation was approved in July 2014.

"Non current assets held for sale" - subsequent to reporting date interested buyers paid deposits in respect of the properties in Willowvale adverstised for sale. The buyers are in the process of concluding sale agreements with the Municipality.

39. Budget differences

Material differences between budget and actual amounts

39.1 Funds not immediately utilised are invested to generate interest for the municipality as part of revenue enhancement

39.2 Registration for vehicles has not yet opened

Figures in Rand	2014	2013

39. Budget differences (continued)

39.3 No system in place to collect outstanding fines

39.4 Budgeted positions not filled

39.5 The municipality has underspent at the end of the year

39.6 Included in the budget is VAT to be collected from SARS. The VAT portion in the AFS appears under financial position as net effect

39.7 Non implementation of credit control results in non payments by rate payers

39.8 Money owed by SARS

39.9 The actual amount reflect the net amount of debtors after impairment. Debtors before impairment were R21 396 824

39.10 Under expenditure on grants meant for infrastructure

39.11 There was no budget for finance cost. The amount relates to landfill site provision

39.12 The budget figure was based on the total amount of debtors to be impaired while only the movement is shown in the Income statement

39.13 Budget for intangible assets is included in property, plant and equipment under IT equipment

39.14 This relates to transfers from property, plant and equipment and investment properties and was therefore budgeted for with those items

39.15 At the time of budget amount was based on the anticipated figures. The difference is then due to timing of payments

39.16 The bank overdraft relates to the timing of transfers into the account and the effective dates of payments made. During the 2013/14 financial year, the physical cash balance was never in overdraft.

39.17 Underspending of projects

39.18 Non implementation of credit control of debt collection. Rate payers with long outstanding bedts were written off.

Changes from the approved budget to the final budget

The changes between the approved and final budget are the result of the following:

- Rollovers that were approved
- Grants which was erroneously allocated to the municipality
- Mid year budget and performance assessment
- Grant allocation which was adjusted (MIG)